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C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 000781

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017
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SUBJECT: THE FIRST SOUTH AMERICAN ENERGY SUMMIT

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Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (C) SUMMARY: President Chavez described the First South American Energy Summit (Summit), which was held on Margarita Island on April 17, as a "perfect summit." Chavez ducked a fight with Brazil over ethanol and used the event to showcase his vision of South American integration -- effectively papering over a breach that he himself had created. Major deliverables include the formation of the Union of South American States, a proposal for a South American Energy Treaty, the creation of a regional gas producers association, and a proposal for a chain of refineries that are linked to oil production from the Faja. Chavez also used the Summit to repeatedly attack the USG and described U.S. ethanol policy as "madness". Chavez flapped around for several weeks in wake of the U.S. - Brazil accord on ethanol, seeming to reject any use of this vital alternative energy. During the summit, he hit on a formulation he will likely stick with: U.S. ethanol bad, Brazilian ethanol good. END SUMMARY

ETHANOL

¶2. (C) The media's pre-summit coverage focused on a potential battle between Presidents Chavez and Lula over ethanol. Chavez ducked the battle by repeatedly stating that Venezuela did not have anything against ethanol or any other type of biofuel -- that is to say, contradicting everything he had said on this issue for weeks. (NOTE: The evening before the Summit, in what we saw as a clear attempt to preempt Chavez and stake out Brazil's position, Brazilian presidential advisor Marco Aurelio Garcia clearly and succinctly laid out the case for Brazil's alternative fuels policy to the press. END NOTE). Chavez stressed that Brazil's ethanol program, as opposed to the United States', did not threaten world food supplies. Chavez also stated he wanted to use African palm or cane for ethanol production, rather than corn. Ecuadorian President Correa came to Chavez' aid by repeatedly stating that the supposed ethanol conflict between Brazil and Venezuela was a product of press reports that took Venezuelan and Cuban statements on ethanol "out of context."

¶3. (SBU) During his post-summit press conference, Chavez stated Venezuelan gasoline would be composed of 10% ethanol.

According to Chavez, Venezuela has a refining capacity of 3.3 million barrels per day and that this required 200,000 barrels of ethanol for the production of gasoline. Chavez stated he asked Lula to provide Venezuela with ethanol and stated it would not be subject to tariffs. Chavez claimed that 200,000 barrels of ethanol was equal to 60% of Brazil's production.

¶4. (SBU) Chavez also stated that Venezuela, with the help of Brazil and Cuba, was building five ethanol plants. Earlier in the summit, he asked Lula to help Venezuela export ethanol to the United States. In keeping with President Chavez' distinction between good and bad ethanol programs, Venezuelan Energy Minister Ramirez stated that PDVSA, the Venezuelan state oil company, would plant one million hectares of soybeans in order to boost the food supply as part of Venezuela's ethanol program.

UNASUR

¶5. (SBU) Chavez, as host, announced the creation of the Union of South American Nations (UNASUR) and stated its executive secretariat would be located in Quito. During his press conference, Chavez stated UNASUR would have a high level political commission composed of members who had access to their respective chiefs of state. Chavez added that he viewed UNASUR as a mechanism to unite the CAN and Mercosur. Press reports speculated that possible candidates for the position of UNASUR Executive Secretary were Marco Aurelio Garcia and Samuel Pineiro from Brazil, and the former President of Ecuador Rodrigo Borja.

SOUTH AMERICAN ENERGY COUNCIL

¶6. (SBU) The Summit's declaration states that the

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signatories will create a South American Energy Council composed of the Energy Ministers of each country. The declaration states that the Council will create an energy strategy for South America, an action plan to implement it, and present a proposed text for the South American Energy Treaty.

THE SOUTH AMERICAN ENERGY TREATY

¶7. (SBU) Chavez stated in his press conference that he hoped the text of the South American Energy Treaty, which would create an integrated production and distribution system for the continent, would be delivered at the Third South America Summit, which will be held at the end of the year in Cartagena, Colombia. The treaty will have four components: gas, petroleum, alternative energy, and energy savings programs.

¶8. (SBU) Under the gas component of the Treaty, Chavez proposed that the development of Venezuela's Delta Caribe gas field act as an anchor for a continent-wide gas plan. Each country would separately manage its gas extraction and exportation programs. However, under the Treaty, a series of Gas Industrial Centers would be created. The centers appear to be LNG processing plants. Chavez stated that the centers would allow countries to export LNG. However, Chavez also appeared to hold out the option of shipping gas through a series of gas pipelines: the Gasoducto del Sur (Venezuela to Argentina), the Transoceánico (Venezuela to Panama via Colombia), and the Transandino Simón Bolívar (Venezuela, Colombia, Ecuador, Bolivia, and Peru). The final phase of the gas project would be the use of natural gas to power automobiles and homes.

¶9. (C) Under the petroleum portion of the Treaty, Chavez is basically proposing to tie all of South America to Venezuela,

with Venezuela acting as the hub, via the development of the Faja region's extra heavy crude fields. Chavez proposed the creation of a "South America block" in the Faja in which only South American companies could operate. Chavez claimed the block, which he did not define, contained reserves of 10.5 billion barrels. Energy Minister Ramirez stated separately that once the BRV obtained control of the four strategic associations in the Faja on May 1, it would try to "reserve important areas" which would be dedicated to the South American market. (COMMENT: As we have previously reported, we do not believe the South American national oil companies (NOCs) have the technical capabilities to develop the Faja's extra heavy crude. In addition, we do not believe that PDVSA itself has the ability to develop the Faja blocks without the assistance of international oil companies or, perhaps, one or two of the most technically sophisticated NOCs. END COMMENT)

¶10. (C) Chavez also suggested the creation of a regional development fund which would be funded by the "participation bonds" the Venezuelan Energy Ministry received when it publicly offered Faja blocks. The fund would contain at least USD 5 billion. Chavez stated that Venezuela needed 13 refineries to process additional production from the Faja. It appears from his comments that the fund will be used to build these refineries in various South American countries. (COMMENT: We are not sure what is meant by "participation bonds." It is possible that Chavez is referring to certificates that IOCs and NOCs received for lost value during the conversion of operating service agreement fields to PDVSA-controlled joint ventures. If that is the case, then the BRV will be funding the development fund. We also note that Venezuelan refineries have been plagued with accidents over the past 18 months. We find it difficult to believe that Venezuela can successfully help other South American countries build refineries given its inability to keep its own refineries up and running. END COMMENT)

¶11. (SBU) The biofuels portion of the Treaty appears to be Chavez' ethanol proposals discussed above. The energy savings program does not appear to be well-defined. Chavez did not offer any specific proposals but merely bragged about the BRV's energy savings programs. Chavez claimed Venezuela would save USD 10 billion by substituting gas for gasoline.

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OPPEGASUR

¶12. (SBU) Bolivia, Venezuela, and Argentina have proposed the creation of a regional gas producers association, OPPEGASUR, and have invited other countries to join. The Bolivian Energy Minister Carlos Villegas was quoted in the press as stating that Brazil has formally asked to become a member. We have not seen any comments from Brazil confirming or denying their interest in joining OPPEGASUR. OPPEGASUR's objectives include information exchange as well as joint exploration, exploitation, operation and transportation projects. In response to a press question, Chavez stated that OPPEGASUR was not a topic of the Summit.

BANCO DEL SUR

¶13. (SBU) Although the Banco del Sur development bank was supposed to be a key element in the Summit, very little was said about it. Both Lula and his international advisor Marco Aurelio Garcia publicly stated Brazil would not commit to the bank until it had a clear idea of its legal nature and the scope of its activities. Chavez later stated in his post-summit press conference that the bank was not a topic at the Summit but noted he discussed it with Correa during their bilateral meeting and that Ecuador was very interested. He also claimed that Brazil was interested as well.

BILATERAL AGREEMENTS

¶14. (SBU) Presidents Chavez, Lula, Morales, and Duarte inaugurated the construction of two petrochemical plants in the Jose Industrial Complex on April 16 before heading to Margarita Island. Pequiven, the Venezuelan state petrochemical company, and Braskem, a Brazilian company, will form joint ventures to run the plants within 90 days. Chavez stated he had agreed with Lula to start the construction of the Guiria-Northern Brazil leg of the Gasoducto del Sur. He also said they would be meeting soon in Pernambuco at the site of a joint PDVSA-Petrobras refinery.

¶15. (SBU) Ecuador appears to have done very well in the bilateral agreements department. According to President Correa, PDVSA will assist Ecuador in the development of the Ishpingo-Tambococha-Tiputini oil field as well as the modernization of Ecuador's principal refinery, Esmeraldas. PDVSA will also assist in gas exploration in the Gulf of Guayaquil as well as the construction of gas exploration and storage facilities. Correa stated Ecuador was seeking to construct a "megarefinery" to supply China.

SWIPES AT THE UNITED STATES

¶16. (SBU) Communications Minister William Lara claimed on April 16 that the USG "had an open, clear, and persistent intention of creating a negative image of the First South American Energy Summit." Lara claimed that former Florida governor Jeb Bush's recent criticisms of Venezuela and Cuba's statements on ethanol were clear evidence of the USG's intent.

¶17. (SBU) President Chavez used the petrochemical plant inauguration to state that Venezuela does not have good relations with the United States because they "have declared war on us." He added that he hoped a future U.S. government "could understand us and speak of policy and equality" but added that Latin Americans would only be respected if they were united.

¶18. (SBU) During his press conference, Chavez mentioned the shootings at Virginia Tech and sent his condolences to the American people and the families of the victims. He then asked the press to ponder whether the United States was a "society of violence." He later added that the fundamental cause for the coup planned by the United States against his government and executed by a fascist alliance was petroleum. Later in the press conference, he complained about the futures market in the United States and twice called the USG's ethanol policy "madness". He later attacked the USG's

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policy in Iraq and stated the 21st century would see the end of the American empire. He also stated the United States was a threat to the existence of humanity.

COMMENT

¶19. (C) Chavez had to eat some crow over his ethanol position, rather obviously reversing his field in the face of unified South American support for ethanol as part of the energy solution. Chavez hit on a public expression of this that he will likely stick with: Brazilian ethanol good, U.S. ethanol bad. At the same time, he laid out yet another pharaonic vision -- this one for South American energy integration, with Venezuela as its keystone. Although some of his proposals, such as the multiple pipelines, are far-fetched, he placed bold proposals on the table. Energy-poor South American nations, mindful of Venezuela's reserves and its cash, will pay attention. Whether Chavez can actually bring these to fruition is another matter.

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